



## Media Release

### If you're happy and you know it clap your hands

Business sentiment continues to inch higher. A net 26 percent of businesses expect general business conditions to get better over the year ahead.

A net 32 percent of respondents expect more activity out of their business over the coming year. It's back above "average" and sentiment improved across all sub-components.

Profit expectations, employment intentions, and investment intentions continue to firm. A net 10 percent of businesses expect profitability to improve. A net 6 percent of firms expect to be hiring more staff, and a net 17 percent anticipate more investment. All good on the face of it, although as recent lifts in the unemployment rate attest, reality does not necessarily match expectations. Questions surround whether growth in hiring will be sufficient to mop up new entrants into the labour market.

Inflation gauges remain tame. Indeed, inflation expectations fell to their lowest level since October 1999. Pricing intentions lifted a tad, but with a mere 17 percent of firms expecting to lift prices, inflationary nuances are timid. Amidst signs of a pending city rebuild (and elevated readings in construction across all survey measures, and solid residential and commercial construction intentions), such inflation tones augur well for interest rates remaining low.

The regional picture is dominated by Canterbury, which takes pole position for business confidence and firms' own activity expectations, and 2<sup>nd</sup> for employment and investment. This ties in with increasing signs of rebuild-related activity, a dynamic that will become more pronounced in the economic data over 2013.

Our bugbear remains the timid level of export confidence. A net 18 percent of exporters expect an uplift. Our glass-half-full lens notes the improvement from the month prior (+18 versus +14). However, the level remains low: the very high currency is clearly continuing to hurt exporters.

The RBNZ and inflation targeting are becoming a scapegoat for exporters' currency woes. Re-aligning the New Zealand dollar with local competitiveness and fundamentals must come from lifts in the latter two. Alas, this is where the main act is becoming the fringe festival to politics. Mount Tongarairo is not the only thing belching hot air.

Our combined composite growth indicator – combining indicators from both this survey and ANZ Consumer Confidence – is flagging 2.1 percent annual GDP growth. This looks solid enough on the face of it, but the past few years have taught us that expectations and reality do not always align.

The next issue of *Business Outlook* will be released on 18 December 2012, at 1pm.

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# ANZ BUSINESS OUTLOOK

## IF YOU'RE HAPPY AND YOU KNOW IT CLAP YOUR HANDS

November 2012

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### SUMMARY

- Business confidence and sub-component indicators nudged higher.
- Our composite growth indicator is pointing to 2.1 percent growth.
- Tame pricing measures mean the RBNZ is firmly on hold.

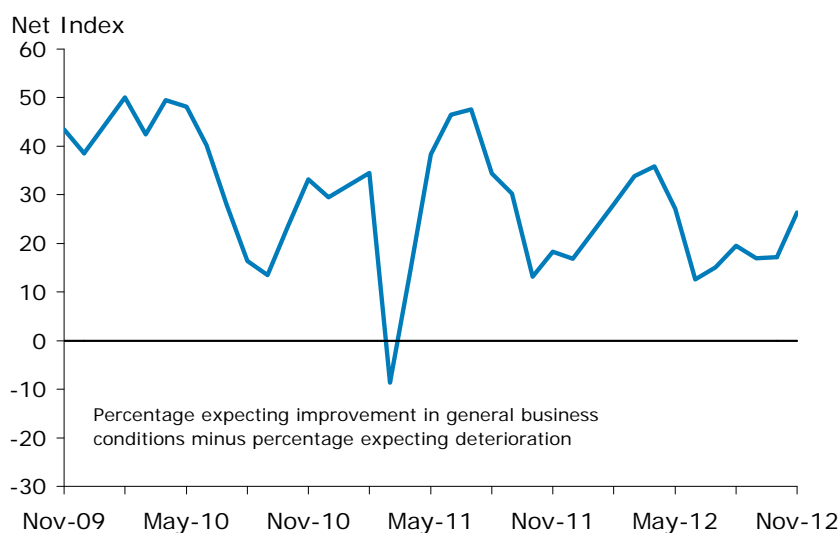
**Business sentiment continues to inch higher.** A net 26 percent of businesses expect general business conditions to get better over the year ahead. Confidence was up in all five sub-components bar construction – but this sector nonetheless remains in pole position.

Why the lift in confidence? **The past month has seen a real potpourri of developments.** Housing activity has been firming. Commodity prices continue to rise. The sharemarket maintained its grind upwards. Reduced wage pressure bodes well for an elongated period of low interest rates. Global ructions remain in recess. Conversely, unemployment is on the up, the New Zealand dollar is still elevated, we're still a nation of poor savers, and reduced wage pressure unfortunately means lower disposable incomes.

Of course we could go searching for intangible drivers of movements in business confidence such as the shift between rugby and cricket seasons (but this normally brings less optimism, not more). We normally feel perkier heading into the festive season, though **stripping out the mild season pattern still shows a modest lift.**

**Firmer nuances are apparent across the remainder of the survey.** Firms' own activity expectations nudged up – this series represents what businesses think about "real activity" as opposed to the general environment, and hence tends a more relevant indicator of economic momentum than confidence itself. **A net 32 percent of respondents expect more activity out of their business over the coming year.** It's back above "average" and sentiment improved across all sub-components.

### Business Confidence Index



Source: ANZ

**Profit expectations, employment intentions, and investment intentions continue to firm.** A net 10 percent of businesses expect profitability to improve. A net 6 percent of firms expect to be hiring more staff, and a net 17 percent anticipate more investment. All good on the face of it, although as recent lifts in the unemployment rate attest, reality does not necessarily match expectations. Questions surround whether growth in hiring will be sufficient to mop up new entrants into the labour market.

**Inflation gauges remain tame.** Indeed, inflation expectations fell to their lowest level since October 1999. Pricing intentions lifted a tad, but with a mere 17 percent of firms expecting to lift prices, inflationary nuances are timid. Amidst signs of a pending city rebuild (and elevated readings in construction across all survey measures, and solid residential and commercial construction intentions), such inflation tones augur well for interest rates remaining low.

**The regional picture is dominated by Canterbury,** which takes pole position for business confidence and firms' own activity expectations, and 2<sup>nd</sup> for employment and investment. This ties in with increasing signs of rebuild-related activity, a dynamic that will become more pronounced in the economic data over 2013. This will keep the RBNZ watchful of inflation.

Our bugbear remains the timid level of export confidence. **A net 18 percent of exporters expect an uplift.** Our glass-half-full lens notes the improvement from the month prior (+18 versus +14). However, the level remains low, and exporters clearly continue to suffer from a very high currency: while the fundamentals for the NZD might seem relatively unattractive by historical standards, in this environment it somehow manages top spot in the global currency beauty pageant.

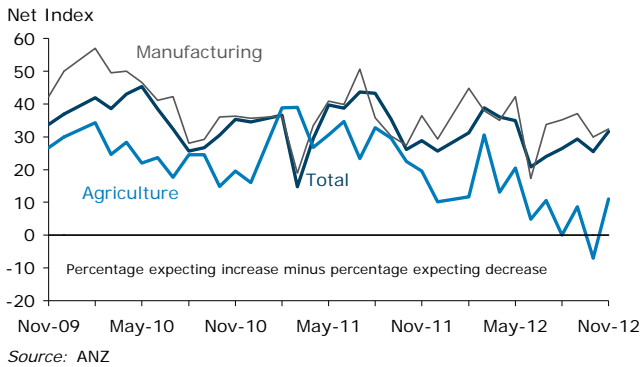
The RBNZ and inflation targeting are becoming a scapegoat for exporters' currency woes. Re-aligning the New Zealand dollar with local competitiveness and fundamentals must come from lifts in the latter two. Alas, this is where the main act is becoming the fringe festival to politics. Mount Tongarairo is not the only thing belching hot air.

Our **combined composite growth indicator** – combining indicators from both this survey and ANZ Consumer Confidence – **is flagging 2.1 percent annual GDP growth.** This looks solid enough on the face of it, but the past few years have taught us that expectations and reality do not always align.

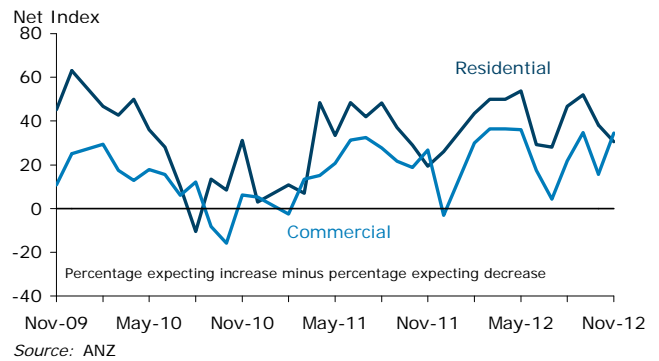
SURVEY RESULTS NOVEMBER 2012							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	26.4	17.2	25.8	23.9	-3.7	43.8	37.4
Activity Outlook	31.6	25.5	41.9	32.4	11.1	46.8	35.0
Exports	17.5	14.1	37.5	20.4	4.6	16.7	15.2
Investment	16.7	12.1	21.3	11.2	14.8	34.4	25.0
Livestock	4.3	-8.1	...	...	4.3	...	...
Capacity Utilisation	14.9	11.7	17.2	23.0	-8.7	31.6	15.5
Residential Construction	30.5	38.1	...	...	...	30.5	...
Commercial Construction	34.6	15.8	...	...	...	34.6	...
Employment	6.3	4.1	17.7	-5.8	-7.4	31.2	9.1
Unemployment Rate	0.9	14.1	14.5	15.5	22.2	0.0	-14.0
Profits	9.6	3.8	24.2	7.1	-33.4	28.1	18.9
Interest Rates	4.7	2.6	6.5	1.4	-14.8	18.8	9.8
Pricing Intentions	16.9	14.5	27.4	12.7	-3.7	34.4	21.8
Ease of Credit	10.8	11.9	1.9	13.6	24.0	9.4	14.2
Inflation Expectations	2.24	2.36	2.34	2.19	2.05	2.50	2.16

# ANZ BUSINESS OUTLOOK

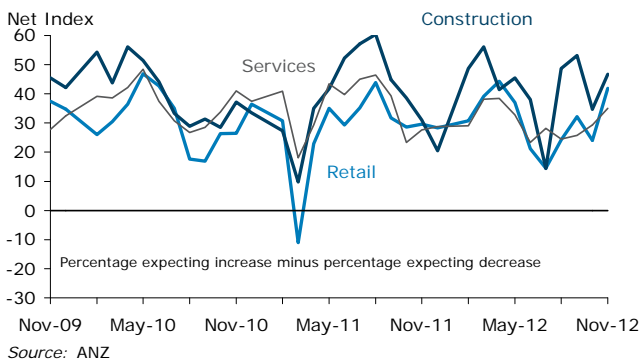
**Activity Outlook Index**



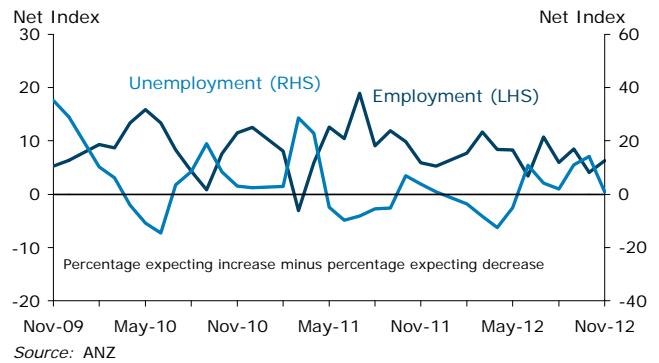
**Construction Intentions**



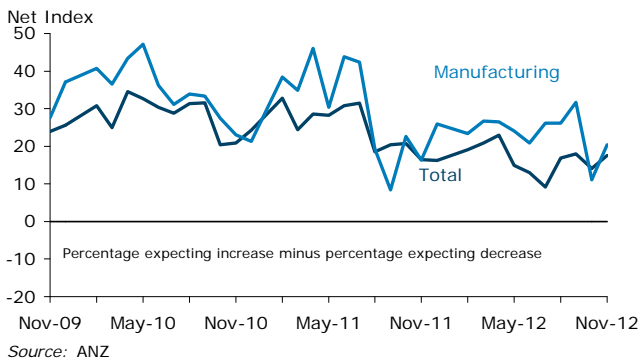
**Activity Outlook Index**



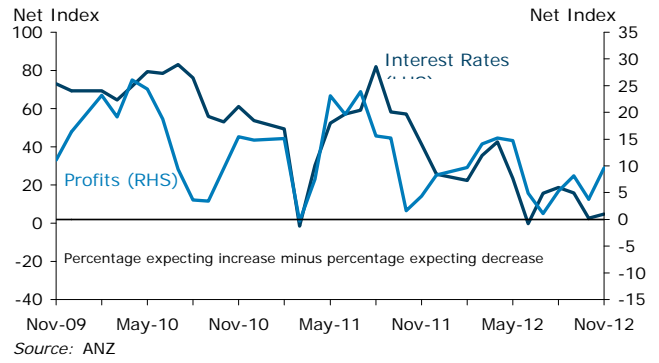
**Labour Market Outlook**



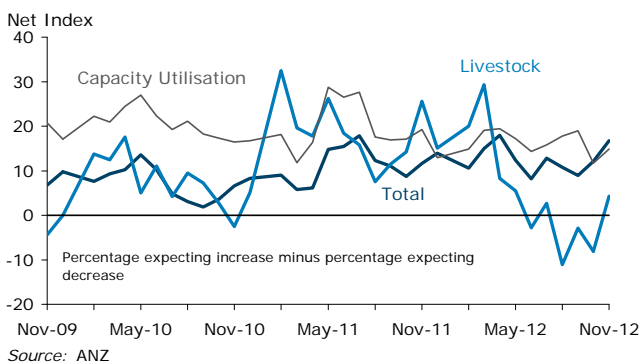
**Export Sales Volume**



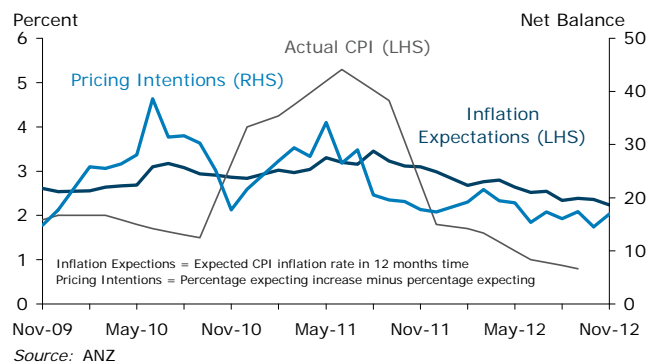
**Financial Outlook**



**Investment Intentions**



**Inflation Expectations**



# Survey Summary

<b>NOVEMBER 2012</b>	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
No. of Respondents	464	62	71	27	32	143
<b>General Business Conditions</b>						
Improve	37.8	38.7	35.2	29.6	46.9	44.4
Remain the Same	50.8	48.4	53.5	37.0	50.0	48.6
Deteriorate	11.4	12.9	11.3	33.3	3.1	7.0
Net Index	<b>26.4</b>	<b>25.8</b>	<b>23.9</b>	<b>-3.7</b>	<b>43.8</b>	<b>37.4</b>
Expected Inflation (%)	<b>2.24</b>	<b>2.34</b>	<b>2.19</b>	<b>2.05</b>	<b>2.50</b>	<b>2.15</b>
<b>Unemployment Rate</b>						
Increase	24.6	29.0	28.2	37.0	25.0	18.9
Remain the Same	51.7	56.5	59.2	48.1	50.0	48.3
Decrease	23.7	14.5	12.7	14.8	25.0	32.9
Net Index	<b>0.9</b>	<b>14.5</b>	<b>15.5</b>	<b>22.2</b>	<b>0.0</b>	<b>-14.0</b>
<b>Interest Rates</b>						
Increase	16.0	21.0	14.1	11.1	21.9	19.6
Remain the Same	72.7	64.5	73.2	63.0	75.0	70.6
Decrease	11.3	14.5	12.7	25.9	3.1	9.8
Net Index	<b>4.7</b>	<b>6.5</b>	<b>1.4</b>	<b>-14.8</b>	<b>18.8</b>	<b>9.8</b>
<b>Real Business Activity</b>						
Increase	41.6	51.6	45.1	25.9	53.1	46.2
Remain the Same	48.5	38.7	42.3	59.3	40.6	42.7
Decrease	10.0	9.7	12.7	14.8	6.3	11.2
Net Index	<b>31.6</b>	<b>41.9</b>	<b>32.4</b>	<b>11.1</b>	<b>46.8</b>	<b>35.0</b>
<b>Real Profits</b>						
Increase	32.0	45.2	31.0	22.2	40.6	37.8
Remain the Same	45.7	33.9	45.1	22.2	46.9	43.4
Decrease	22.4	21.0	23.9	55.6	12.5	18.9
Net Index	<b>9.6</b>	<b>24.2</b>	<b>7.1</b>	<b>-33.4</b>	<b>28.1</b>	<b>18.9</b>
<b>Employment</b>						
Increase	20.4	25.8	17.1	14.8	37.5	23.8
Remain the Same	65.5	66.1	60.0	63.0	56.3	61.5
Decrease	14.1	8.1	22.9	22.2	6.3	14.7
Net Index	<b>6.3</b>	<b>17.7</b>	<b>-5.8</b>	<b>-7.4</b>	<b>31.2</b>	<b>9.1</b>

Net Indices are calculated as the percentage expecting an improvement minus the percentage expecting a deterioration.

The ANZ Business Outlook survey.

NOVEMBER 2012	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
<b>Price of Good/Service</b>						
Increase	22.6	30.6	18.3	14.8	34.4	24.6
Remain the Same	71.7	66.1	76.1	66.7	65.6	72.5
Decrease	5.7	3.2	5.6	18.5	0.0	2.8
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>16.9</b>	<b>27.4</b>	<b>12.7</b>	<b>-3.7</b>	<b>34.4</b>	<b>21.8</b>
=====	=====	=====	=====	=====	=====	=====
<b>Investment</b>						
Increase	26.2	29.5	23.9	37.0	37.5	31.4
Remain the Same	64.4	62.3	63.4	40.7	59.4	62.1
Decrease	9.5	8.2	12.7	22.2	3.1	6.4
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>16.7</b>	<b>21.3</b>	<b>11.2</b>	<b>14.8</b>	<b>34.4</b>	<b>25.0</b>
=====	=====	=====	=====	=====	=====	=====
<b>Real Exports</b>						
Increase	27.5	41.7	36.7	18.2	25.0	23.9
Remain the Same	62.5	54.2	46.9	68.2	66.7	67.4
Decrease	10.0	4.2	16.3	13.6	8.3	8.7
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>17.5</b>	<b>37.5</b>	<b>20.4</b>	<b>4.6</b>	<b>16.7</b>	<b>15.2</b>
=====	=====	=====	=====	=====	=====	=====
<b>Capacity Utilisation</b>						
Increase	21.6	17.2	32.8	4.3	31.6	25.4
Remain the Same	71.7	82.8	57.4	82.6	68.4	64.8
Decrease	6.7	0.0	9.8	13.0	0.0	9.9
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>14.9</b>	<b>17.2</b>	<b>23.0</b>	<b>-8.7</b>	<b>31.6</b>	<b>15.5</b>
=====	=====	=====	=====	=====	=====	=====
<b>Livestock Investment</b>						
Increase	13.0	0.0	0.0	13.0	0.0	0.0
Remain the Same	78.3	0.0	0.0	78.3	0.0	0.0
Decrease	8.7	0.0	0.0	8.7	0.0	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>4.3</b>	<b>#N/A</b>	<b>#N/A</b>	<b>4.3</b>	<b>#N/A</b>	<b>#N/A</b>
=====	=====	=====	=====	=====	=====	=====
<b>Residential Building</b>						
Increase	34.8	0.0	0.0	0.0	34.8	0.0
Remain the Same	60.9	0.0	0.0	0.0	60.9	0.0
Decrease	4.3	0.0	0.0	0.0	4.3	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>30.5</b>	<b>#N/A</b>	<b>#N/A</b>	<b>#N/A</b>	<b>30.5</b>	<b>#N/A</b>
=====	=====	=====	=====	=====	=====	=====
<b>Non-Residential Construction</b>						
Increase	42.3	0.0	0.0	0.0	42.3	0.0
Remain the Same	50.0	0.0	0.0	0.0	50.0	0.0
Decrease	7.7	0.0	0.0	0.0	7.7	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>34.6</b>	<b>#N/A</b>	<b>#N/A</b>	<b>#N/A</b>	<b>34.6</b>	<b>#N/A</b>
=====	=====	=====	=====	=====	=====	=====
<b>Ease of Getting Credit</b>						
Easier	20.8	15.1	21.2	40.0	18.8	23.6
Remain the Same	69.2	71.7	71.2	44.0	71.9	66.9
Harder	10.0	13.2	7.6	16.0	9.4	9.4
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Net Index	<b>10.8</b>	<b>1.9</b>	<b>13.6</b>	<b>24.0</b>	<b>9.4</b>	<b>14.2</b>
=====	=====	=====	=====	=====	=====	=====

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The ANZ Business Outlook survey.

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